

Overview

The Greater Cincinnati medical office market is currently the strongest commercial real estate segment in Cincinnati. While the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 continue to be debated in Congress, Cincinnati's healthcare sector is a bulwark of activity. There is currently 775,700 SF of new medical construction in progress - TriHealth's new 65,000 SF building for Group Health Associates in Clifton, Mercy Health Partner's 550,000 SF hospital in Green Township, the Urology Group's new 45,000 SF facility in Norwood, Duke Realty's 29,700 SF Western Ridge Medical Office Building Two in Green Township, and The Christ Hospital's 68,000 SF outpatient center in Green Township.

The Christ Hospital is also planning an expansion of its Mount Auburn campus. Cincinnati Children's Hospital is in the process of moving into its renovated 156,000 SF building in Avondale (the former Vernon Manor Hotel). In Fairfield Township, Kettering Health Network purchased 134.42 acres of land at the intersection of the SR4 Bypass and SR129 on 3/15/11 for \$11,355,280 (\$85,220.06/acre). Development plans for this site have not been finalized, but will most likely include outpatient services, physician offices, and other health services. In northern Kentucky, St. Elizabeth Healthcare will construct a single-story, 25,000 SF medical complex at the site of the former Mildred Dean Elementary School in Newport.

Competition among hospitals and major practices remains fiercely intense. This competition has also entered a new phase, as hospitals on both sides of the Ohio River are ignoring state borders in their quest for patients. The Christ Hospital will be opening a primary care office in Fort Wright later this year, and has recently hired two cardiologists in Florence. St. Elizabeth Healthcare is also taking more aggressive marketing approach for its services north of the Ohio River. St. Elizabeth Healthcare's acquisition of Comprehensive Cardiology Consultants in March 2010 resulted in the system's first locations north of the Ohio River.

People and Companies

On the Move

- **Health First Physicians** joined TriHealth, effective January 1st. The nine primary care physicians in the practice will continue to see patients at their existing Loveland, Mason, and Mariemont locations.
- **Internal Medicine Associates of Northern Kentucky** merged with **St. Elizabeth Physicians**, bringing seven internal medicine doctors, six pulmonologists and two nurse practitioners into the St. Elizabeth fold. Internal Medicine Associates will continue to serve patients from its current location on Chancellor Drive in Crestview Hills
- Doctors Patricia Grodecki and Sanjay Patil joined **The Christ Hospital Cardiovascular Associates**. Drs. Grodecki and Patil will continue to care for Northern Kentucky patients at their new office location in the Florence Professional Commons Office Building, located at 6905 Burlington Pike in Florence.
- Cardiovascular specialists Doctors Daniel Beyerbach and Greg Egnaczyk joined **The Christ Hospital's** affiliated Practice, **The Ohio Heart and Vascular Center**. Their practice is located in The Christ Hospital Medical Office Building, Suite 137, at 2123 Auburn Avenue.
- **The Christ Hospital** acquired the **Cincinnati Bone and Joint Institute**, the orthopaedic physician practice of Doctors Patrick Kirk and Edward Lim. As part of this affiliation, The Christ Hospital will employ the physicians and employees of the practice as part of **The Christ Hospital Orthopaedic Associates**. Drs. Kirk and Lim will maintain their current offices at The Christ Hospital Medical Office Building, Suite 231, 2123 Auburn Avenue, in Cincinnati and at 4760 E. Galbraith Road, Suite 109, in Sycamore Township.
- Doctor John Piersma, an internal medicine physician, joined **The Christ Hospital Medical Associates**.

- **Caregivers Health Network, Inc.**, a comprehensive home care services provider, was acquired by **Almost Family, Inc.**
- **Kettering Health Network** acquired **Urgent Care of Hamilton** and **Heritage Group**, comprising eleven physicians with three locations.
- **MD Business Solutions** leased 10,000 SF at One Kenwood Place, and will be relocating from 4170 Rosslyn Drive.
- **Cincinnati Sports Medicine** occupied 4,000 SF at 6350 Glenway Avenue, relocating from 3301 Westbourne Avenue.

First Quarter Medical Office Transactions

Sale Transactions

- **CAA Realty, LLC** (Cincinnati Arthritis Associates) purchased 7798 University Court, Unit F (a 2,675 SF medical office condominium) from 7798 University Court, LTD (Miller-Valentine Group) on 3/31/11 for \$204,106 (\$76.30/SF).

Lease Transactions

- **Camelot Community Care** renewed its lease and expanded to 6,500 SF at Corporate Tower (7162 Reading Road) in Roselawn.
- **University Hospital** leased 70,000 SF with Deaconess Hospital at 311 Straight Street, and will be relocating all of its inpatient and outpatient psychiatric services to this location over the next year.
- **Dennis M. Lambert, DDC** leased 5,000 SF at 8205 Corporate Way in Mason, and will be relocating from 3615 Socialville Foster Road in Mason.
- **Wellington Orthopaedics & Sports Medicine** expanded its space at Eastgate Commerce Center (4440 Glen Este-Withamsville Road) from 4,516 SF to 18,725 SF.
- **The Christ Hospital** leased 3,625 SF at Florence Professional Center (6905 Burlington Pike) in Florence.
- **The Institute of Reproductive Health** opened its new 2,224 SF location at 7242 Tyler's Corner Drive in West Chester.
- **Mercy Medical Associates** leased 6,573 SF at the Mercy Mt. Airy Medical Building (2450 Kipling Avenue).

First Quarter Construction Completions

- **Great American Tower at Queen City Square**, totaling 805,000 SF, was completed in January. Great American Insurance is occupying 540,000 SF, and Frost Brown Todd will occupy 100,000 SF, leaving 165,000 SF available for lease. Great American will vacate over 400,000 SF in several buildings in the CBD.
- Galbraith Medical Center (4605 Galbraith Road) was completed in February 2011. **Partner Professional Staffing** is the anchor tenant in this two-story, 18,000 SF building and will occupy the second floor (9,000 SF).
- **Turfway Executive Center** (410 Meijer Drive in Florence) is a three-story, 34,038 SF that opened for tenants this past quarter. The entire building is available for lease on this speculative development.

Projects Under Construction

- **TriHealth** broke ground in January on a new 65,000 SF medical office building at Good Samaritan Hospital. The building will be built on the parking lot behind the current 61,000 SF medical office building. Group Health Associates will occupy the building and relocate from its existing facility at 2915 Clifton Avenue. The anticipated completion date is summer 2012.
- Construction commenced in February on **Mercy Health Partners'** new West Side hospital, Mercy Hospital West. Located near I-74 off the North Bend Road exit, the facility will encompass 550,000 SF and have 250 beds. The \$200 million hospital is scheduled to open in mid-2013. Services will include heart care, a cancer center, an orthopedics center, a women's health center, neurology service, and obstetrics/maternity care.

- **The Christ Hospital** broke ground in March on a three-story, 68,000 SF outpatient center at Harrison Avenue and Filview Circle in Green Township. This building is scheduled for completion in the first quarter of 2012. The outpatient center will offer a wide range of services including cardiovascular, orthopaedic and primary care physician offices; a full-service imaging center; physical and occupational therapy; a wound healing center; and a testing center for diagnostic and pre-surgery lab work. This 11.3 acre site also includes room for future expansion.
- **The Urology Group** began construction on their two-story, 45,000 SF building, at Section Road in Norwood. This new building will house administrative offices and an ambulatory surgery center that will include labs, surgical rooms and radiology facilities. The Urology Group will relocate from 38,000 SF at 4700 Smith Road (Central Parke).
- Duke Realty's **Western Ridge Medical Office Building Two** (6909 Good Samaritan Drive) remains on schedule for a mid-2011 completion. This single-story, 29,700 SF building has 6,280 SF available. **Wellington Orthopaedics & Sports Medicine** has leased 18,920 SF and **Tri-State Centers for Sight** has leased 4,520 SF.
- The new 109,000 SF **FBI** campus at Montgomery Road and I-71 in Kenwood is on schedule for a November 2011 completion. The **FBI** will be relocating from the CBD when their four-story building is completed. The **FBI** signed a twenty year lease on this \$50 million building, where it will house its Special Weapons and Tactics and Hazardous Materials units. Plans for the western part of the site include a 160-room hotel and a nine-story, 266,000 SF office tower. The total size of the entire site is 6.26 acres.
- The future of **Kenwood Towne Place**, comprising 270,000 SF, remains uncertain.

Planned Construction Projects

- **Phase II of The Banks** will comprise 250,000 SF of Class A office space, but the timing of this project remains uncertain due to its 60% pre-leasing requirement.
- **Neyer Properties** plans to build 40,000 SF of Class A medical office space at 5655 Harrison Avenue. Located at Harrison Avenue and Westwood Northern Boulevard on a 5 acre site, this new building will be built to LEED Silver standards. Planet Fitness has signed a letter-of-intent to lease 20,000 SF adjacent to the new building. The timing of this project will depend upon obtaining the necessary pre-leasing requirements.
- Demolition of **Oakley North Redevelopment** began this past quarter. The total site cleanup (including any necessary environmental remediation) is projected to take 8-12 months. The initial plans for this 73.55 acre site include 350,000 SF of retail space, a 55,000 SF movie theater, 200 apartments, and 250,000 SF of office space built to LEED standards.
- **St. Elizabeth Healthcare** will construct a single-story, 25,000 SF medical complex at the site of the former Mildred Dean Elementary School in Newport. The school closed in June 2010 and St. Elizabeth purchased the property for \$1.9 million. St. Elizabeth will demolish the building this quarter, with construction of the new facility commencing in the next year.

Interesting Facts

- ◆ More than **seven of ten adults believe the U.S. health system needs fundamental change or complete rebuilding.** (Source: *The Commonwealth Fund*)
- ◆ **High-deductible health plans (HDHPs)** are associated with a 14 percent drop in health spending compared to traditional plans, but also with reduced vaccination and screening rates, though HDHPs waive the deductible for preventive care. (Source: *RAND*)
- ◆ **Employer health costs** increased 14 percent in the last five years: employee out-of-pocket costs (premiums, co-payments, deductibles) increased 47 percent while wages increased 18 percent. (Source: *Bureau of Labor Statistics [BLS]*)
- ◆ **Employment update:** the U.S. added 216,000 jobs (including 36,000 in health care) in March bringing unemployment rate to 8.8 percent vs. 8.9 percent in February. The health care workforce rose above 14 million for the first time ever in March, growing by 0.3 percent from the prior month. Health care employment, including hospitals, doctor's offices, and nursing facilities, has grown by 2.1 percent in the past 12 months. Hospitals added about 10,200 workers in March, growing by a monthly rate of 0.2 percent—by far the swiftest expansion since April 2010. Hospitals had 4.7 million employees in March 2011, with the latest figures boosting the one-year growth rate to 0.4 percent. Physician offices added 7,600 jobs in March, growing by 0.3 percent in the month in a workforce of 2.3 million. Doctors' office employment has grown by 1.4 percent in the past 12 months. (Source: *Bureau of Labor Statistics*)
- ◆ **Life expectancy increased** to 78.2 in 2009 vs. 78.0 in 2008; infant mortality hit all-time low of 6.94 per 1,000 live births; the overall mortality rate dropped 4.2 percent from 759 per 100,000 to 741 per 100,000. (Source: *Centers for Disease Control and Prevention (CDC)*)
- ◆ The **number of patients using community health centers will nearly double** from the current 23 million to about 40 million and could achieve \$63 billion in annual savings by 2015. (Source: *National Association of Community Health Centers*)
- ◆ **As of October 2010, there were 638,661 office-based physicians practice in the U.S.** Total impact: the office-based physician industry supported \$1.4 trillion in total economic activity and 4 million jobs. (Source: *American Medical Association [AMA] Masterfile data, October 2010*)
- ◆ Between 1990 and 2009, **state medical boards have failed to discipline 55 percent (5,887) of the nation's 10,672 doctors** who had their clinical privileges revoked or restricted by the hospitals where they worked. Reasons for the actions against the 5,887 physicians included: 1,119 were disciplined by hospitals because of incompetence, negligence or malpractice; 605 were disciplined for substandard care; and 220 were identified as an immediate threat to health or safety. (Source: *Public Citizen. "State Medical Boards Fail to Discipline Doctors with Hospital Actions Against Them". March 2011*)
- ◆ **Seventeen of the fastest growing jobs in the U.S. economy are in healthcare.** (Source: *Bureau of Labor Statistics (BLS) Jobs Outlook 2008-2018*)
- ◆ **EMR systems' growth rate was 13.6 percent in 2010** (representing \$15.7 billion). The growth rate was lower than the projected rate of 15 percent and was attributed to lack of clarity around meaningful use guidelines. (Source: *Kalorama Information*)
- ◆ **22 percent of Americans incorrectly believe PPACA has been repealed;** 26 percent are unsure or unwilling to say. (Source: *Kaiser Family Foundation*)
- ◆ **Skilled nursing facilities account for 1.7 million jobs** and \$201 billion in economic activity annually. (Source: *Alliance for Quality Nursing Home Care*)
- ◆ **Total uninsured 2010: 50.3 million**—41.7 million adults without children. (Source: *HHS*)
- ◆ **Of office-based physicians, 50.7 percent use some form of an electronic medical record;** fewer than ten percent of these have a fully functional system that includes clinical knowledge support tools to prompt accuracy/thoroughness in diagnostics and treatments. (Source: *National Center for Health Statistics*)
- ◆ **\$10.5 billion market:** 30 percent of plastic surgery patients earn under \$30,000; 41 percent between \$30,000 and \$60,000. Total procedures in 2009: 5,398,127. (Source: *American Society of Aesthetic Plastic Surgery, American Society of Plastic Surgeons*)
- ◆ **2009 health spending:** \$2.49 trillion: 31 percent from hospitals, 20 percent physicians and clinical services, 13 percent retail drugs and medical products, eight percent home health and nursing homes, seven percent other professional services, five percent net cost of insurance, and 16 percent other. (Source: *CMS*)